

LOGAN COUNTY
SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2004

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Logan County School District** (the "District") as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and cash

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flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004 on our consideration of **Logan County School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 16 and 57 through 60 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Logan County School District's** basic financial statements. The combining and individual nonmajor fund financial statements and additional information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the **Logan County School District**. The combining and individual nonmajor fund financial statements, other additional information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Holland CPAs, PSC

Russellville, Kentucky
October 15, 2004

Required Supplementary
Information

Management's Discussion
and Analysis

Logan County School District

Russellville, Kentucky

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

This discussion and analysis of the Logan County School District (the District) is offered by management as a narrative overview of the financial activities of the District for the fiscal year ended June 30, 2004. Readers are encouraged to consider this information in conjunction with the District's financial statements, notes to financial statements, and additional information contained within the body of the audit.

FINANCIAL HIGHLIGHTS

- Total government-wide net assets increased 8% for the fiscal year ended June 30, 2004. Total long-term obligations increased \$1,250,511, while the unreserved fund balance of all governmental funds increased \$759,327.
- Total expenses related to governmental activities were \$23,100,081, of which \$5,606,684 was offset by operating and capital grants and contributions. General revenues (mainly property taxes, utility taxes, and funding from the state) provided for the balance of the expenditures.
- Approximately \$875,820 were expended on facility acquisition and improvements during the year, with \$3,093,745 of improvements under contract but not yet completed. There are currently plans to acquire and construct another approximately \$2.5 million of facilities during the coming year, dependent upon adequate state funding of the District's regular operating activities. Construction and renovations are performed consistent with the District's long-range facilities plan approved by the Kentucky Department of Education.
- The District issued \$2,570,000 of general obligation bonds on June 15, 2004 with interest rates ranging from 2.50% to 5.00% to partially fund an addition to an elementary school.
- The financial statements reflect a total of \$3,000,654 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions and health insurance. A like amount of expenses are also recorded in the financial statements.
- Investment earnings decreased 23% due to declining interest rates.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three components — management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include government-wide financial statements and fund financial statements, which reflect different perspectives of the District's financial operations.

The government-wide financial statements consist of two statements: *Statement of Net Assets*; and, *Statement of Activities*. These statements provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual funds of the District, reporting the District's operations in more detail than the government-wide statements. The governmental funds statements reflect how operations were financed in the short term as well as what remains for future spending. The proprietary funds statements show short-term and long-term financial information about the activity the District operates like a business (food service). Fiduciary funds statements provide information on financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that provide more detailed data and explain some of the information in the basic financial statements. Following the statements is *Required Supplementary Information* that further supports the financial statements with a comparison of the District's budget for the year.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the District as a whole using the accrual basis of accounting similar to that which is used by private-sector businesses. The *Statement of Net Assets* includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *Statement of Activities*, regardless of when cash is received or disbursed.

The two government-wide statements report the District's net assets — the difference between the District's total assets and total liabilities, and how they have changed. Increases or decreases in net assets over time may be an indicator of the District's financial position. One must consider, however, additional factors in assessing the overall financial position of the District such as Kentucky's funding from the state's general budget, the District's local tax base, educational programs and expenditures required by law regardless of funding, and other factors.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



The District's activities are divided into two categories in the government-wide financial statements:

- **Governmental Activities** — Most of the District's services are included here such as instruction, student and administrative support, operation and maintenance of facilities, and pupil transportation. Capital assets and long-term obligations are also included. Locally assessed taxes and intergovernmental revenues principally support these governmental activities.
- **Business-Type Activities** — These activities are partially funded by charges for the goods and services provided. The District's food service is reported as a business-type activity. Food service is also partially funded by federal and state grants.

The most striking difference between the District and a private-sector company is the source of revenues. Unlike most private-sector businesses, the assets of the District exist to provide services to students and do not generate revenue. The major revenue sources include Kentucky's Seek Excellence in Education Funding (SEEK), the state's school funding formula appropriated from its biennial general budget, and locally assessed taxes. Current and future operations, including the payment of related debt on capital assets, are dependent upon these funding sources continuing at adequate levels.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information regarding the District's accounting funds as opposed to the District as a whole, focusing on the District's major funds. A fund is a grouping of related accounts used to segregate sources of funding and spending on particular programs or activities. The District's funds are mandated by the state as part of a statewide uniform system of accounting for school districts to ensure compliance with finance and legal requirements. The District's major funds are the General Fund, Special Revenue Fund, and Construction Fund. The District has three types of funds:

Governmental Funds – Most of the District's services and activities are included in governmental funds which focus on cash inflows and outflows and the balances remaining at year-end that are available for future spending. The modified accrual method of accounting is used to report these funds, which measures cash and financial assets that can be readily converted to cash. Therefore, the governmental funds statements provide a detailed short-term view to help indicate the financial resources available to finance the District's programs in the near future. Since the governmental funds statements do not encompass the additional long-term focus of the government-wide statements, a reconciliation of the differences is provided in the financial statements.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



Proprietary Funds – The District's only proprietary fund is food service. The proprietary fund statements are the same as the business-type activities in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary Funds – The District is fiduciary for assets that belong to others and is responsible for ensuring that assets reported in the fiduciary funds are used only for their intended purposes. The District's fiduciary funds consist of student activities funds and the scholarship fund. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. Total net assets of governmental activities and business-type activities increased 8% and 9% respectively. Total long-term obligations increased \$1,250,511 while assets other than capital assets increased \$3,181,731 due primarily to proceeds from a bond issue for construction not yet being expended. Unrestricted net assets increased \$801,237, \$135,991 of which was from business-type activities. The District's largest asset is its investment in capital assets, constituting 63% of total assets. Capital assets, net of related debt, are 56% of net assets. Long-term obligations make up 92% of the total liabilities.

Following is a summary of the District's government-wide net assets for the fiscal years ended June 30, 2003 and 2004:

Net Assets for the Fiscal Years Ended June 30, 2003 and 2004

	Governmental Activities		Business-Type Activities		District Total	
	2003	2004	2003	2004	2003	2004
Current and other assets	\$ 11,617,500	\$ 14,663,437	\$ 537,545	\$ 673,339	\$ 12,155,045	\$ 15,336,776
Capital assets	25,562,548	25,707,535	766,461	768,983	26,329,009	26,476,518
Total assets	37,180,048	40,370,972	1,304,006	1,442,322	38,484,054	41,813,294
Long-term obligations	15,070,526	16,298,384	12,868	35,521	15,083,394	16,333,905
Other liabilities	1,138,701	1,505,706	7,063	4,295	1,145,764	1,510,001
Total liabilities	16,209,227	17,804,090	19,931	39,816	16,229,158	17,843,906
Net assets						
Invested in capital assets, net of related debt	11,286,371	12,563,883	766,461	748,901	12,052,832	13,312,784
Restricted	1,156,277	809,580	0	0	1,156,277	809,580
Unrestricted	8,528,173	9,193,419	517,614	653,605	9,045,787	9,847,024
Total net assets	\$ 20,970,821	\$ 22,566,882	\$ 1,284,075	\$ 1,402,506	\$ 22,254,896	\$ 23,969,388

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



Changes in net assets. The District's governmental activities net assets increased by \$1,596,061 and business-type assets increased \$118,431. The increase in business-type assets (food service) resulted primarily from increased federal grants for higher participation of students receiving free and reduced-price meals.

The increase in governmental activities net assets is a result of numerous factors. The Kentucky School Facilities Construction Commission (SFCC) makes direct payments of principal and interest on District bonds issued for construction of facilities. The bonds payable are included in the long-term obligations of the District and the payments are recorded as revenue from the state. The resultant increase in net assets from the direct payment of principal by the SFCC was in excess of \$775,000.

Following is a summary schedule of changes in the District's net assets for the years ended June 30, 2003 and 2004:

Changes in Net Assets for the Fiscal Years Ended June 30, 2003 and 2004

	Governmental Activities		Business-Type Activities		District Total	
	2003	2004	2003	2004	2003	2004
Revenues						
Program revenues						
Charges for services	\$ 14,620	\$ 16,329	\$ 643,520	\$ 664,717	\$ 658,140	\$ 681,046
Operating grants & contributions	3,683,954	3,839,519	845,426	862,989	4,529,380	4,702,508
Capital grants and contributions	1,776,569	1,767,165			1,776,569	1,767,165
General revenues						
Locally assessed taxes	4,233,113	4,479,177			4,233,113	4,479,177
Investment earnings	367,007	272,628	11,747	10,976	378,754	283,604
State aid	13,771,572	14,269,135			13,771,572	14,269,135
Other revenue	25,924	52,189			25,924	52,189
Total revenues	23,872,759	24,696,142	1,500,693	1,538,682	25,373,452	26,234,824
Expenses						
Instruction	14,804,720	14,958,287			14,804,720	14,958,287
Student and instructional staff support	1,471,931	1,823,204			1,471,931	1,823,204
School administration	939,508	1,209,187			939,508	1,209,187
District administration, business, and personnel support	658,771	647,678			658,771	647,678
Plant operation and maintenance	1,850,549	1,938,937			1,850,549	1,938,937
Pupil transportation	1,495,321	1,590,023			1,495,321	1,590,023
Interest on long-term debt	694,812	664,240			694,812	664,240
Food service			1,396,421	1,420,251	1,396,421	1,420,251
Other	224,713	268,525			224,713	268,525
Total expenses	22,140,325	23,100,081	1,396,421	1,420,251	23,536,746	24,520,332
Increase in net assets	\$ 1,732,434	\$ 1,596,061	\$ 104,272	\$ 118,431	\$ 1,836,706	\$ 1,714,492

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



Locally generated revenues increased 4% for the year accounting for 19% of total governmental revenues. General revenue state aid was 58% of total revenues. State SEEK funds received increased \$506,884 due to increased enrollment and assistance in funding state mandated salary increases.

Direct instruction expenses were 65% of total governmental expenses, with student support, staff support, and school administration making up another 13%. District administration, business support, and personnel support accounted for only 3% of total governmental expenses for both 2004 and 2003. Also, operation and maintenance of facilities was 8% and pupil transportation was 7% of the total governmental expenses for both years.

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

As noted previously, the General Fund, Special Revenue Fund, and Construction Fund are the District's major funds. The Other Governmental Funds reflected in the financial statements consist of: the SEEK Fund, also known as the Capital Outlay Fund; the FSPK Fund, also known as the Building Fund; and, the Debt Service Fund.

The District's only proprietary fund is food service which is funded by sales and operating grants, mainly federal grants for students qualifying for free or reduced-priced meals. The District has two fiduciary funds. The Student Activity Fund is used to account for monies held for student groups. The Scholarship Fund resources can only be used to fund continuing education scholarships for graduating seniors and is funded totally by contributions and investment earnings.

The main sources of the General Fund's revenues are state aid in the form of SEEK allocations and locally assessed taxes. The majority of the District's activities are accounted for in the General Fund. The Special Revenue Fund consists of grant revenues, mostly state funds and federal funds administered through the state, and expenditures of those grants for specific programs in accordance with the grants' guidelines.

The SEEK Capital Outlay Fund's revenues are derived from state SEEK allocations based upon student enrollment. The FSPK Building Fund's revenues are produced by a five-cent special property tax assessment and matching state funds. The use of both funds resources is generally restricted to facilities acquisition or improvement and payment of the related debt on facilities. The Construction Fund is used to account for facility construction and improvement projects funded by other funds or borrowing.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



The Debt Service Fund is used to account for all activities related to long-term bond obligations. Revenues are transfers from other funds, mainly the SEEK Capital Outlay Fund and FSPK Building Fund, and state aid from Kentucky's SFCC. The revenues are used to make payments on the long-term obligations and related expenditures.

Following is a summary of fund balances for the fiscal years ended June 30, 2003 and 2004:

Governmental Funds Balances as of June 30, 2003 and 2004

	FYE 2003	FYE 2004	Increase (Decrease)
Governmental Funds			
General Fund	\$ 9,252,091	\$ 9,767,390	\$ 515,299
Special Revenue Fund	42,352	24,488	(17,864)
Construction Fund	373,536	3,086,043	2,712,507
Other governmental funds			
SEEK Capital Outlay Fund	155,188	68,923	(86,265)
FSPK Building Fund	607,798	165,848	(441,950)
Debt Service Fund	19,755	19,890	135
Total governmental funds	\$ 10,450,720	\$ 13,132,582	\$ 2,681,862
 Proprietary Fund (Food Service Fund)	 \$ 1,284,075	 \$ 1,402,506	 \$ 118,431
 Fiduciary Funds			
Scholarship Fund	\$ 83,663	\$ 111,530	\$ 27,867
School Activity Funds	0	0	0
Total Fiduciary Funds	\$ 83,663	\$ 111,530	\$ 27,867

The increase in food service's fund balance resulted primarily from increased federal grants for higher participation of students receiving free and reduced-price meals while maintaining costs on those additional meals at an acceptable level. The Student Activity Funds show no fund balance because all monies in the funds are held for, and are due to, student groups. The Scholarship Fund's balance increased with contributions into the fund while investment earnings approximated scholarships awarded.

The Debt Service Fund is a required conduit for payment of long-term obligations and consequently the balance changed only a minor amount. The Construction Fund's balance increased because of bond sale proceeds and transfers into the fund for specific construction projects in progress not yet being expended. The entire balances of the SEEK Capital Outlay Fund and FSPK Building Fund are restricted for use on facilities construction projects as required for participation of the SFCC in funding future debt service for those projects. Those fund balances decreased due to transfers into the Construction Fund.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

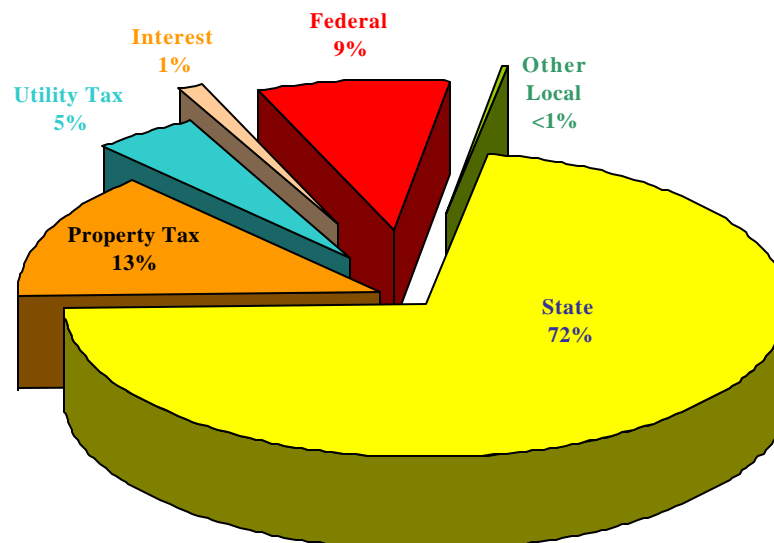


The Special Revenue Fund's balance will inherently fluctuate annually. Grants are obtained for specified purposes and the balance of the fund will change dependent upon when the grant funds are received and disbursed.

The General Fund's balance increased approximately 5.6%. Total General Fund revenues increased \$669,763, or 3.7%, over the prior year while total expenditures increased \$818,750, or 4.8%. General Fund revenues from local sources increased 4% while revenues from state sources increased \$497,563, or 3.6%. General Fund expenditures for instruction and instructional support services increased 5.6% over the prior year. The cost of district administration and business and personnel support services decreased in relation to total expenditures from 3.7% to 3.4%.

The following graphs indicate the relationship of types of revenues to total revenues of Total Governmental Funds for the fiscal years ended June 30, 2004 and 2003:

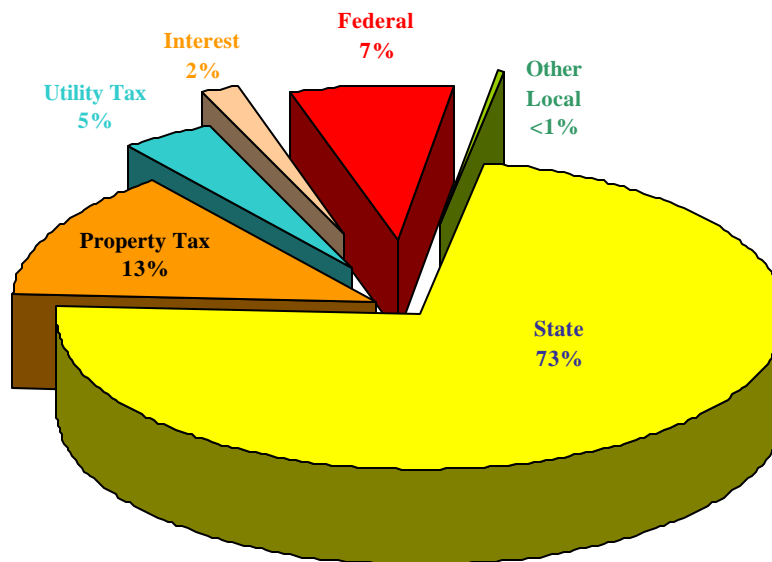
Total Governmental Funds Revenues for the Fiscal Year Ended June 30, 2004



Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



Total Governmental Funds Revenues for the Fiscal Year Ended June 30, 2003



The District continues to find economies in operations wherever possible. The state did not have a general budget for a major portion of the biennium ended June 30, 2004, and as of this writing, does not have a general budget for the 2005 – 2006 biennium. Monies accumulated specifically for instructional programs over and above regular instruction and for future construction projects are being cautiously managed in fear that they may be needed to fund the basic day-to-day operations of the district.

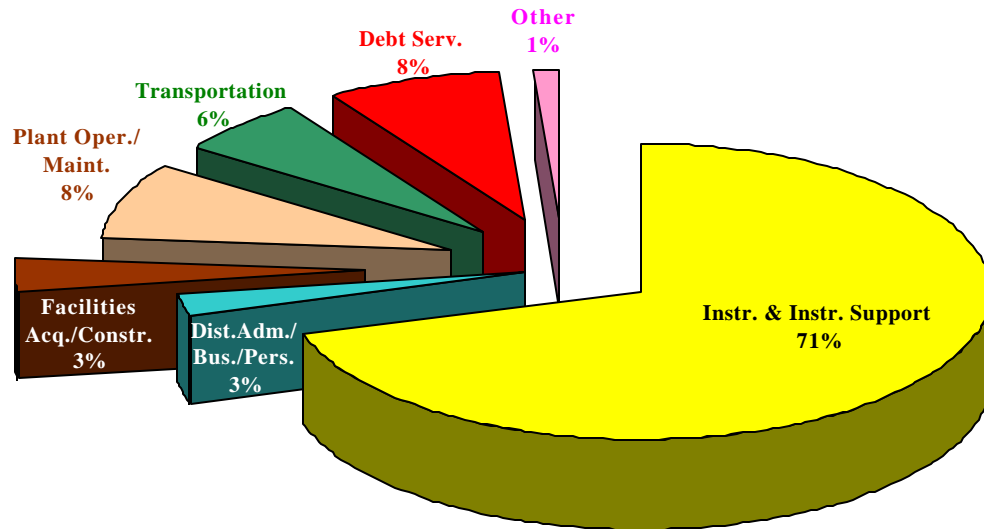
The increase in operating expenditures for instruction and instructional support is due to increased salaries and increased services delivered to students for regular and special instructional programs. Transportation, both regular and special education transportation, continues to be under-funded by the state. Plant operation and maintenance expenditures increased due to increasing cost of utilities and maintaining facilities at a level to defer any deterioration.

Following are graphs indicating the relationship of types of expenditures to total expenditures of Total Governmental Funds for the fiscal years ended June 30, 2004 and 2003:

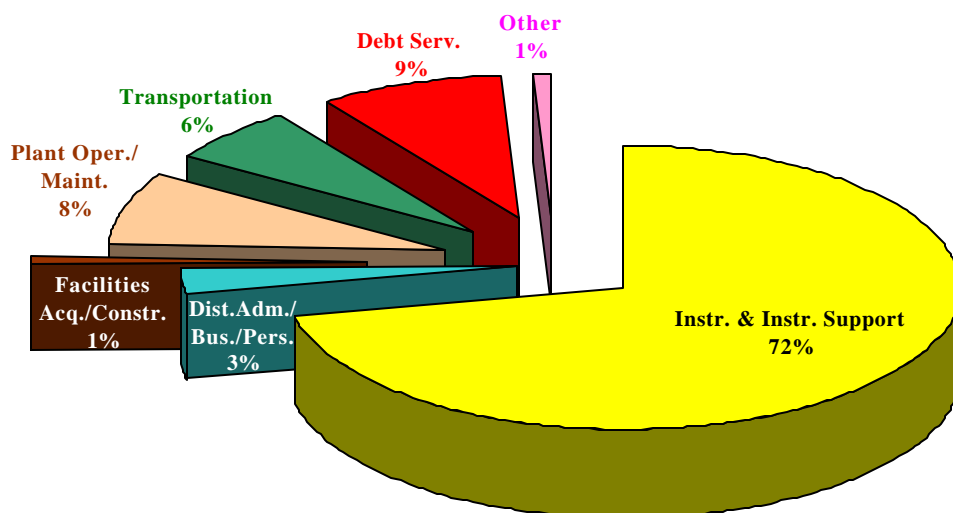
Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



Total Governmental Funds Expenditures for the Fiscal Year Ended June 30, 2004



Total Governmental Funds Expenditures for the Fiscal Year Ended June 30, 2003



Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District's funds budgets are prepared to account for most transactions on a cash receipt / cash disbursement / encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by the DOE. The major change from the original General Fund budget to the final budget resulted from changes in SEEK funding estimates from the state.

As noted on the *Budgetary Comparison Schedule for the General Fund* contained in the *Required Supplemental Information*, the budget did not include \$2,545,726 of state payments on-behalf of District employees for retirement and health benefits. These payments are reflected in the GAAP basis actual amounts as state program revenues and in each type of expenditure in relation to wages paid, with the major portion contained in instructional expenditures. Local revenues are budgeted conservatively and utility taxes generated more revenues than expected resulting in a favorable variance of local revenues for the year.

The district administration expense surplus of budget above actual expense is an offset against the deficit of school administration due to the allocation of employee benefits based on wages originally budgeted and charged to district administration. Other deficit amounts are due to state payments on-behalf of District employees not being included in budgeted amounts as described above. Facilities acquisition and construction shows a large surplus because of funds accumulated for future construction projects not yet being expended. Budgeted debt service is shown in the GAAP actual amounts as fund transfers. Contingency funds will always reflect a surplus as it is not an expenditure category. Favorable variances in plant operations and maintenance and student transportation result from energy cost increases not being as much as budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. At June 30, 2004, the District had \$26,476,518 invested in capital assets net of depreciation: historical cost totaled \$39,411,350 with accumulated depreciation totaling \$12,934,832. These assets include school, athletic, and support facilities, as well as technology, food service, and other equipment. \$875,820 were expended on facility acquisition and improvements during the year, with \$3,093,745 of improvements under contract but not yet completed. There are plans to acquire and construct another approximately \$2.5 million of facilities during the coming year. Depreciation charged to expense during the year totaled \$1,304,958, the majority of which was charged to governmental functions. More detailed information relating to capital assets may be found in Note 4 to the financial statements.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2003 and 2004:

Capital Assets for the Fiscal Years Ended June 30, 2003 and 2004

	Governmental Activities		Business-Type Activities		District Total	
	2003	2004	2003	2004	2003	2004
Land	\$ 481,399	\$ 492,781			\$ 481,399	\$ 492,781
Land Improvements	342,855	318,855			342,855	318,855
Building and Improvements	22,560,289	22,058,144	\$ 592,791	\$ 576,937	23,153,080	22,635,081
Construction in Progress	112,989	839,540			112,989	839,540
Technology Equipment	849,145	694,398	2,784	27,224	851,929	721,622
Transportation Equipment	921,792	830,005			921,792	830,005
Other equipment and furniture	294,079	473,812	170,886	164,822	464,965	638,634
	<u>\$ 25,562,548</u>	<u>\$ 25,707,535</u>	<u>\$ 766,461</u>	<u>\$ 768,983</u>	<u>\$ 26,329,009</u>	<u>\$ 26,476,518</u>

Long-Term Debt. The District's long-term general obligation bonds outstanding at June 30, 2004 were \$15,450,000, an increase of 8.62% over the previous year due to a new bond issue described below. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to repay \$4,925,730 of the bonds leaving the District to pay \$10,524,270. There were no significant changes in the District's other long-term obligations.

The District issued \$2,570,000 of general obligation bonds on June 15, 2004 to partially fund an addition to an elementary school. The new bonds interest rates range from 2.50% to 5.00%. The bonds serially mature through 2024 and are callable at par in 2014.

The District's general obligation bonds are rated Aa3. The amount of total general obligation bonds that the District may issue is dependent upon the amount of resources in the SEEK Capital Outlay and FSPK Building Funds available for debt service. The state must approve the issuance of any new bonds of the District.

More detailed information about the District's long-term liabilities may be found in Note 5 to the financial statements.

OUTLOOK FOR THE FUTURE

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004



The most crucial aspect in the financial future of the District is continued adequate funding from the state. The District's major source of revenue is state aid, primarily Kentucky SEEK funding. The state has unexpectedly cut SEEK funding at year-end in the past. As of this writing, the District has been notified that the 2005 calculated SEEK amount, including transportation, will not be fully funded in the amount of \$135,670. Also, part of the state mandated salary increases were directed to be paid from locally generated funds, and other mandated special programs remain under-funded and must be supplemented with local funds.

The District has worked diligently on a long-term plan to accumulate funds for additional instructional programs and future construction. The expenditure of some of these funds has been postponed in fear that the monies could be needed to fund the normal operations of the District. The future construction is needed to provide for a growing enrollment and maintain facilities at their proper level. Additional instructional programs have proved useful in guiding the district towards student proficiency as mandated and measured by the state. These are multi-year commitments that the District must be assured of being able to financially fulfill before undertaking. While the District is on a sound financial foundation for the present time and near future, the long-range plans of the District, and the work that has gone into them to date, are in jeopardy without adequate funding from the state.

At this time, the state has not passed a general budget for the current biennium. With the District's tax base remaining flat and state limitations on the amount local taxes may be increased, the District is unable to fill the void of state funding cuts with local assessments. The District will continue to operate conservatively to assure that a deficit does not occur due to state under-funding of calculated amounts due to the District, while making every effort to maintain all facilities at their best operating level and providing innovative instructional services and opportunities to the students of Logan County.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and other stakeholders with a general overview of the Logan County School District's accountability for the money it receives. Any questions about this report or requests for additional information should be directed to Danny L. Harris, CPA, Director of Finance, at Logan County School District, 2222 Bowling Green Road, P. O. Box 417, Russellville, KY 42276, or by calling (270) 726-2436.

Basic Financial Statements

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2004

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash.....	\$ 13,919,676	\$ 573,927	\$ 14,493,603
Accounts receivable:			
Taxes	179,924	0	179,924
Accounts.....	19,548	0	19,548
Intergovernmental – state.....	100,566	0	100,566
Intergovernmental – federal.....	418,574	72,834	491,408
Inventory.....	0	26,578	26,578
Bond issuance costs	29,300	0	29,300
Less: accumulated amortization.....	(4,151)	0	(4,151)
Nondepreciable capital assets.....	1,332,321	0	1,332,321
Depreciable capital assets	36,563,148	1,515,881	38,079,029
Less: accumulated depreciation.....	(12,187,934)	(746,898)	(12,934,832)
TOTAL ASSETS	<u>40,370,972</u>	<u>1,442,322</u>	<u>41,813,294</u>
LIABILITIES			
Accounts payable	1,086,471	4,295	1,090,766
Accrued liabilities	316,744	0	316,744
Deferred revenue.....	102,491	0	102,491
Long-term obligations:			
Due within one year:			
Outstanding bonds	1,470,000	0	1,470,000
Other	22,047	5,697	27,744
Accrued interest.....	143,153	0	143,153
Compensated absences	372,523	11,250	383,773
Due beyond one year:			
Outstanding bonds	13,935,943	0	13,935,943
Other	21,406	14,385	35,791
Compensated absences	333,312	4,189	337,501
TOTAL LIABILITIES	<u>17,804,090</u>	<u>39,816</u>	<u>17,843,906</u>

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt.....	\$ 12,563,883	\$ 748,901	\$ 13,312,784
Restricted for:			
Debt service.....	29,281	0	29,281
Capital projects, net of unspent bond proceeds.....	780,299	0	780,299
Unrestricted	9,193,419	653,605	9,847,024
TOTAL NET ASSETS	\$ 22,566,882	\$ 1,402,506	\$ 23,969,388

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 14,958,287	\$ 14,000	\$ 3,060,941	\$ 30,713	\$ (11,852,633)	\$ 0	\$ (11,852,633)
Support Services:							
Student.....	611,676	0	56,997	0	(554,679)	0	(554,679)
Instructional staff	1,211,528	0	380,157	0	(831,371)	0	(831,371)
District administration	379,004	0	0	0	(379,004)	0	(379,004)
School administration	1,209,187	0	6,178	0	(1,203,009)	0	(1,203,009)
Business and personnel.....	268,674	0	0	0	(268,674)	0	(268,674)
Plant operations and maintenance.....	1,938,937	2,329	45,352	0	(1,891,256)	0	(1,891,256)
Student transportation	1,590,023	0	49,833	0	(1,540,190)	0	(1,540,190)
Other.....	243,190	0	240,061	0	(3,129)	0	(3,129)
Facilities acquisition and construction.....	24,672	0	0	737,793	713,121	0	713,121
Interest on long-term debt.....	664,240	0	0	998,659	334,419	0	334,419
Loss on disposal of assets.....	663	0	0	0	(663)	0	(663)
TOTAL GOVERNMENTAL ACTIVITIES	23,100,081	16,329	3,839,519	1,767,165	(17,477,068)	0	(17,477,068)

BUSINESS-TYPE ACTIVITIES

Food services.....	1,420,251	664,717	862,989	0	0	107,455	107,455
TOTAL BUSINESS-TYPE ACTIVITIES	<u>1,420,251</u>	<u>664,717</u>	<u>862,989</u>	<u>0</u>	<u>0</u>	<u>107,455</u>	<u>107,455</u>
TOTAL SCHOOL DISTRICT	<u>\$ 24,520,332</u>	<u>\$ 681,046</u>	<u>\$ 4,702,508</u>	<u>\$ 1,767,165</u>	<u>(17,477,068)</u>	<u>107,455</u>	<u>(17,369,613)</u>

GENERAL REVENUES

Taxes:

Property.....	2,481,324	0	2,481,324
Motor vehicle.....	475,609	0	475,609
Utilities.....	1,162,075	0	1,162,075
Other.....	360,169	0	360,169
State aid.....	14,269,135	0	14,269,135
Investment earnings.....	272,628	10,976	283,604
Other.....	52,189	0	52,189

TOTAL GENERAL REVENUES	<u>19,073,129</u>	<u>10,976</u>	<u>19,084,105</u>
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CHANGE IN NET ASSETS	<u>1,596,061</u>	<u>118,431</u>	<u>1,714,492</u>
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NET ASSETS – BEGINNING OF YEAR	<u>20,970,821</u>	<u>1,284,075</u>	<u>22,254,896</u>
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NET ASSETS – END OF YEAR	<u>\$ 22,566,882</u>	<u>\$ 1,402,506</u>	<u>\$ 23,969,388</u>
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LOGAN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash.....	\$ 10,379,460	\$ 0	\$ 3,276,164	\$ 264,052	\$ 13,919,676
Accounts receivable:					
Taxes	179,924	0	0	0	179,924
Accounts.....	19,548	0	0	0	19,548
Intergovernmental – state.....	7,452	93,114	0	0	100,566
Intergovernmental – federal.....	0	418,574	0	0	418,574
Due from other funds	277,780	0	0	0	277,780
TOTAL ASSETS	\$ 10,864,164	\$ 511,688	\$ 3,276,164	\$ 264,052	\$ 14,916,068

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 789,421	\$ 106,929	\$ 190,121	\$ 0	\$ 1,086,471
Accrued liabilities	307,353	0	0	9,391	316,744
Due to other funds	0	277,780	0	0	277,780
Deferred revenue	0	102,491	0	0	102,491
TOTAL LIABILITIES	1,096,774	487,200	190,121	9,391	1,783,486

FUND BALANCES

Reserved for:					
Future construction.....	0	0	3,086,043	0	3,086,043
Unreserved	9,767,390	24,488	0	254,661	10,046,539
TOTAL FUND BALANCES	9,767,390	24,488	3,086,043	254,661	13,132,582

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 10,864,164	\$ 511,688	\$ 3,276,164	\$ 264,052	\$ 14,916,068
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**LOGAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2004**

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 13,132,582

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in governmental funds.
The cost of the assets is \$37,895,469, and the accumulated depreciation
is \$12,187,934. 25,707,535

Bond issuance costs are not financial resources and therefore are not
reported as assets in governmental funds. The cost of the asset is \$29,300
and the accumulated amortization is \$4,151 25,149

Long-term liabilities, including bonds payable, are not due and payable in
the current period and therefore are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Bonds payable.....	(15,405,943)
Accrued interest on the bonds	(143,153)
Other	(43,453)
Compensated absences	(705,835)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 22,566,882

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
From local sources:					
Taxes:					
Property.....	\$ 2,078,828	\$ 0	\$ 0	\$ 402,496	\$ 2,481,324
Motor vehicle.....	475,609	0	0	0	475,609
Utilities.....	1,162,075	0	0	0	1,162,075
Other.....	360,169	0	0	0	360,169
Earnings on investments.....	250,117	613	9,318	13,194	273,242
Other local revenue.....	54,259	13,757	0	0	68,016
Intergovernmental – state.....	14,269,135	1,770,895	0	1,736,452	17,776,482
Intergovernmental – indirect federal.....	0	1,786,176	0	0	1,786,176
Intergovernmental – direct federal.....	14,258	298,805	0	0	313,063
Federal through intermediate sources.....	0	(14)	0	0	(14)
TOTAL REVENUES	18,664,450	3,870,232	9,318	2,152,142	24,696,142
EXPENDITURES					
Current:					
Instruction.....	11,150,264	3,139,618	0	0	14,289,882
Support services:					
Student.....	563,431	56,997	0	0	620,428
Instructional staff.....	811,850	380,157	0	0	1,192,007

District administration.....	353,401	0	0	0	353,401
School administration.....	1,190,333	6,178	0	0	1,196,511
Business and personnel.....	260,552	0	0	0	260,552
Plant operations and maintenance	1,972,754	45,352	0	0	2,018,106
Student transportation.....	1,462,129	49,833	0	0	1,511,962
Other	7,169	240,061	0	0	247,230
Facilities acquisition and construction	17,878	0	857,942	2,100	877,920
Debt service:					
Principal.....	0	0	0	1,380,000	1,380,000
Interest.....	0	0	0	636,281	636,281
TOTAL EXPENDITURES	17,789,761	3,918,196	857,942	2,018,381	24,584,280
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	874,689	(47,964)	(848,624)	133,761	111,862
OTHER FINANCING SOURCES (USES)					
Bond proceeds	0	0	2,570,000	0	2,570,000
Operating transfers.....	(359,390)	30,100	991,131	(661,841)	0
TOTAL OTHER FINANCING SOURCES (USES)	(359,390)	30,100	3,561,131	(661,841)	2,570,000
NET CHANGE IN FUND BALANCES	515,299	(17,864)	2,712,507	(528,080)	2,681,862
FUND BALANCES – BEGINNING OF YEAR	9,252,091	42,352	373,536	782,741	10,450,720
FUND BALANCES – END OF YEAR	\$ 9,767,390	\$ 24,488	\$ 3,086,043	\$ 254,661	\$ 13,132,582

See accompanying notes to the financial statements.

**LOGAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004**

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ 2,681,862

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures.
However, in the statement of activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which capital outlays (\$1,395,399) exceeds depreciation expense
(\$1,249,749) in the period. 145,650

Repayments of bond principal and other debt obligations are expenditures
in the governmental funds, but the repayments reduce long-term liabilities in
the statement of net assets. 1,429,692

The proceeds, if any, from the retirement of capital assets are reported as
revenue in the governmental funds. However, the cost of the retired capital
assets are removed in the statement of net assets and offset against the
sales proceeds, resulting in a loss in the statement of activities.. (663)

Bond proceeds provide current financial resources and are reported in
the fund financial statements but are shown as long-term debt in the
statement of net assets..... (2,570,000)

Expenditures reported in the fund financial statements are recognized when
the current financial resource is used. However, expenses in the statement
of activities are recognized when they are incurred. (90,480)

CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 1,596,061

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	ENTERPRISE FUND FOOD SERVICE
<hr/>	
<hr/>	
ASSETS	
CURRENT ASSETS	
Cash.....	\$ 573,927
Accounts receivable:	
Intergovernmental – federal.....	72,834
Inventory	26,578
TOTAL CURRENT ASSETS	<u>673,339</u>
NON-CURRENT ASSETS	
Fixed assets – net.....	768,983
TOTAL ASSETS	<u><u>\$ 1,442,322</u></u>
 LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable.....	\$ 4,295
Compensated absences.....	11,250
Other.....	5,697
TOTAL CURRENT LIABILITIES	<u>21,242</u>
LONG-TERM LIABILITIES	
Compensated absences.....	4,189
Other.....	14,385
TOTAL LONG-TERM LIABILITIES	<u>18,574</u>
NET ASSETS	
Invested in capital assets	768,983
Unrestricted.....	633,523
TOTAL NET ASSETS	<u>1,402,506</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,442,322</u></u>

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	ENTERPRISE FUND FOOD SERVICE
OPERATING REVENUES	
Lunchroom sales	\$ 664,717
TOTAL OPERATING REVENUES	664,717
OPERATING EXPENSES	
Salaries and wages	574,944
Contract services	25,588
Materials and supplies	642,249
Other operating expenses	122,261
Depreciation expense.....	55,209
TOTAL OPERATING EXPENSES	1,420,251
OPERATING LOSS	(755,534)
NON-OPERATING REVENUES (EXPENSES)	
State operating grants	69,707
Federal operating grants	704,531
Donated commodities	88,430
Other revenue	3,900
Loss on disposal of fixed assets	(3,579)
Interest revenue.....	10,976
TOTAL NON-OPERATING REVENUES (EXPENSES)	873,965
CHANGE IN NET ASSETS	118,431
TOTAL NET ASSETS – BEGINNING OF YEAR	1,284,075
TOTAL NET ASSETS – END OF YEAR	\$ 1,402,506

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	ENTERPRISE FUND FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 591,883
Cash payments to employees for services	(574,944)
Cash payments for contract services	(25,588)
Cash payments to suppliers for goods and s ervices	(545,130)
Cash payments for other operating expenses	(122,261)
NET CASH USED IN OPERATING ACTIVITIES	(676,040)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating grants received	774,238
Other	1,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	775,238
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments on long-term debt.....	(9,027)
Acquisition of capital assets	(29,301)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(38,328)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	10,976
NET CASH PROVIDED BY INVESTING ACTIVITIES	10,976
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	71,846
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR.....	502,081
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 573,927

	ENTERPRISE FUND FOOD SERVICE
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (755,534)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation.....	55,209
Commodities used	88,430
Changes in assets and liabilities:	
Receivables	(72,834)
Inventories	8,886
Accounts payable	(2,228)
Accrued liabilities	(540)
Compensated absences	2,571
NET CASH USED IN OPERATING ACTIVITIES	\$ (676,040)

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

	AGENCY FUNDS	PRIVATE PURPOSE TRUST FUND
ASSETS		
ASSETS		
Cash	\$ 266,017	\$ 111,530
Accounts receivable	5,413	0
	<u>271,430</u>	<u>111,530</u>
TOTAL ASSETS	\$ 271,430	\$ 111,530
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 17,948	\$ 0
Due to student groups	253,482	0
	<u>271,430</u>	<u>0</u>
NET ASSETS		
Held in trust for scholarships	0	111,530
	<u>0</u>	<u>111,530</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 271,430	\$ 111,530

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2004

	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS	
Earnings on investments.....	\$ 1,951
Other local revenue	28,758
TOTAL ADDITIONS	<u>30,709</u>
DEDUCTIONS	
Scholarships	2,842
TOTAL DEDUCTIONS	<u>2,842</u>
CHANGE IN NET ASSETS	27,867
NET ASSETS – BEGINNING OF YEAR	<u>83,663</u>
NET ASSETS – END OF YEAR	<u><u>\$ 111,530</u></u>

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
 POLICIES**

! Reporting Entity

The Logan County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Logan County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Logan County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc., except for those funds administered as an activity in the agency funds.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Logan County School District Finance Corporation — The Logan County Board of Education resolved to authorize the establishment of the Logan County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Logan County Board of Education also comprise the Corporation's Board of Directors.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

! Basis of Presentation

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

► **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost as required by Kentucky law.

► **Proprietary Fund Types**

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

► **Fiduciary Fund Types** (includes agency, private purpose and trust funds)

Fiduciary funds account for assets held by the District in a trustees capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Private Purpose Trust Funds

The *Private Purpose Trust Fund* is used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

! Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

! Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

! Cash and Cash Equivalents

The District considers demand deposits, money market funds and other highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

! Inventory

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

! Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Estimated Lives
Buildings and improvements	25–50 years
Land improvements.....	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock.....	15 years
Other.....	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

! Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
 POLICIES (Continued)**

! Compensated Absences

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

! Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the Government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

! Fund Equity

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

! Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

! Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

! Revenues — Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

! Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

! Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

! Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

! Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

! Investment Income

Assets earning investment income in the Special Revenue Fund (except Kentucky Education Technology, KETS), FSPK fund and SEEK Capital Outlay Fund have assigned their investment earnings to the General Fund. The amount of investment income the General Fund received from this assignment was approximately \$8,178 for the year ended June 30, 2004.

NOTE 2: CASH

! Deposits

At June 30, 2004, the carrying amounts of the District's deposits were \$14,871,150 and the bank balances were \$16,134,317, which was covered by federal depository insurance or by collateral held by the banks in the District's name.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 2: CASH (Continued)

The carrying amounts are reflected in the financial statements as follows:

Governmental funds	\$ 13,919,676
Proprietary funds	573,927
Fiduciary funds	377,547
	<hr/>
	\$ 14,871,150
	<hr/> <hr/>

NOTE 3: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2004 consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue	\$ 277,780
		<hr/> <hr/>

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 481,399	\$ 11,382	\$ 0	\$ 492,781
Construction in progress.....	112,989	857,942	(131,391)	839,540
Total Nondepreciable Historical Cost	594,388	869,324	(131,391)	1,332,321
Capital assets that are depreciated:				
Land improvements	772,587	0	0	772,587
Buildings and improvements.....	28,745,577	130,681	0	28,876,258
Technology equipment	2,648,796	178,158	(41,740)	2,785,214
Vehicles	3,408,156	119,092	(156,436)	3,370,812
General.....	528,742	229,535	0	758,277
Total Depreciable Historical Cost	36,103,858	657,466	(198,176)	36,563,148
Less accumulated depreciation for:				
Land improvements	429,732	24,000	0	453,732
Buildings and improvements.....	6,185,288	632,826	0	6,818,114
Technology equipment	1,799,651	332,242	(41,077)	2,090,816
Vehicles	2,486,364	210,879	(156,436)	2,540,807
General.....	234,663	49,802	0	284,465
Total Accumulated Depreciation	11,135,698	1,249,749	(197,513)	12,187,934
Total Depreciable Historical Cost, Net	24,968,160	(592,283)	(663)	24,375,214
Governmental Activities, Capital Assets, Net	\$ 25,562,548	\$ 277,041	\$ (132,054)	\$ 25,707,535

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 4: CAPITAL ASSETS (Continued)

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Buildings and improvements.....	\$ 792,679	\$ 0	\$ 0	\$ 792,679
Technology equipment	8,525	31,190	(1,838)	37,877
General.....	669,368	30,120	(14,163)	685,325
Total Depreciable Historical Cost	1,470,572	61,310	(16,001)	1,515,881
Less accumulated depreciation for:				
Buildings and improvements.....	199,888	15,854	0	215,742
Technology equipment	5,741	6,503	(1,591)	10,653
General.....	498,482	32,852	(10,831)	520,503
Total Accumulated Depreciation	704,111	55,209	(12,422)	746,898
Business-Type Activities, Capital Assets, Net	\$ 766,461	\$ 6,101	\$ (3,579)	\$ 768,983

Depreciation expense was charged to governmental functions as follows:

Instruction.....	\$ 929,485
Support services:	
Student	5,666
Instructional staff.....	40,429
District administration.....	25,603
School administration.....	12,676
Business	8,122
Plant operations and maintenance	19,563
Student transportation	201,567
Other.....	6,638
Total Depreciation Expense	\$ 1,249,749

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 5: GENERAL LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1993	\$ 3,455,000	5.10%—5.125%
1996	1,405,000	4.00%—5.00%
1997	4,090,000	3.80%—5.10%
1998	5,580,000	1.00%—4.125%
1998B	990,000	3.70%—4.00%
2000	1,875,000	5.25%—5.60%
2000B	2,830,000	4.55%—5.10%
2003	1,920,000	1.50%—3.65%
2004	2,570,000	2.50%-5.00%

On June 15, 2004, the District issued \$2,570,000 in bonds with interest rates ranging from 2.50% to 5.00% to construct an addition and renovate the Chandlers Elementary School.

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Logan County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 5: GENERAL LONG-TERM OBLIGATIONS (Continued)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2004 for debt service (principal and interest) are as follows:

Year	Logan County School District		School Facility Construction Commission		Total Debt Service
	Principal	Interest	Principal	Interest	
2004—2005	\$ 632,046	\$ 463,204	\$ 837,954	\$ 206,393	\$ 2,139,597
2005—2006	661,050	450,492	858,950	173,628	2,144,120
2006—2007	514,880	425,117	655,120	138,111	1,733,228
2007—2008	527,445	405,289	477,555	110,825	1,521,114
2008—2009	544,914	383,775	315,086	90,325	1,334,100
2009—2010	571,070	360,986	328,930	77,848	1,338,834
2010—2011	593,175	336,406	226,825	64,620	1,221,026
2011—2012	623,039	310,046	151,961	55,429	1,140,475
2012—2013	645,788	281,529	159,212	49,061	1,135,590
2013—2014	572,744	250,423	102,256	42,267	967,690
2014—2015	598,166	221,702	106,834	37,469	964,171
2015—2016	517,773	189,765	112,227	32,383	852,148
2016—2017	542,255	164,303	117,745	26,917	851,220
2017—2018	569,918	137,245	110,082	21,416	838,661
2018—2019	600,693	108,763	84,307	16,697	810,460
2019—2020	631,502	78,445	88,498	12,513	810,958
2020—2021	662,477	46,276	77,523	8,419	794,695
2021—2022	163,580	25,440	36,420	5,660	231,100
2022—2023	171,832	17,588	38,168	3,912	231,500
2023—2024	179,923	8,996	40,077	2,003	230,999
	\$ 10,524,270	\$ 4,665,790	\$ 4,925,730	\$ 1,175,896	\$ 21,291,686

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 5: GENERAL LONG-TERM OBLIGATIONS (Continued)

Maturities of other debt are as follows for the fiscal year ending June 30:

For the Years Ending June 30,	Governmental	Food Service
2005.....	\$ 22,047	\$ 5,697
2006.....	20,092	6,642
2007.....	1,314	7,743
Total	\$ 43,453	\$ 20,082

Changes in long-term obligations are as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Amounts Due Within One Year
Government activities:					
Bonds and notes payable:					
General obligation debt.....	\$ 14,260,000	\$ 2,570,000	\$ (1,380,000)	\$ 15,450,000	\$ 1,470,000
Less deferred issuance discounts and premiums	(14,086)	0	1,470	(12,616)	0
Less deferred amount on refundings.....	(62,882)	0	31,441	(31,441)	0
Total Bonds and Notes Payable	14,183,032	2,570,000	(1,347,089)	15,405,943	1,470,000
Other liabilities:					
Other.....	93,145	0	(49,692)	43,453	22,047
Compensated absences	646,244	110,506	(50,915)	705,835	372,523
Total Other Liabilities	739,389	110,506	(100,607)	749,288	394,570
Total Long-Term Liabilities	\$ 14,922,421	\$ 2,680,506	\$ (1,447,696)	\$ 16,155,231	\$ 1,864,570
Proprietary activities:					
Other liabilities:					
Other.....	\$ 0	\$ 29,110	\$ (9,028)	\$ 20,082	\$ 5,697
Compensated absences	12,868	5,142	(2,571)	15,439	11,250
Total Other Liabilities	\$ 12,868	\$ 34,252	\$ (11,599)	\$ 35,521	\$ 16,947

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 6: PENSION PLANS

► *Plan Descriptions*

The Logan County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

► *Funding Policy*

KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 6.34% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2004, 2003 and 2002 were \$244,619, \$203,587 and \$196,978, respectively, equal to the required contributions for each year.

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2004 was \$3,000,654.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 7: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 8: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 9: RISK MANAGEMENT (Continued)

established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10: EXCESS EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Fund	Amount
Special Revenue	\$ 17,864
SEEK	86,265
FSPK.....	441,950

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 11: FUND TRANSFERS

Fund transfers for the year ended June 30, 2004 consist of the following:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Matching	\$ 30,100
Operating	General	Construction	Construction	215,111
Operating	SEEK	Construction	Construction	156,037
Operating	FSPK	Construction	Construction	619,983
Operating	General	Debt Service	Debt Service	114,179
Operating	SEEK	Debt Service	Debt Service	236,597
Operating	FSPK	Debt Service	Debt Service	666,820

NOTE 12: CHANGES IN ACCOUNTING STANDARDS

In March 2003, the Government Accounting Standards Board issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes new disclosures for deposits and investments, focusing on risk. The District will implement this new standard in fiscal year ended June 30, 2005.

Required Supplemental Information

LOGAN COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2004

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 3,746,159	\$ 3,831,354	\$ 4,381,057	\$ 555,703
State programs.....	11,543,389	11,710,170	14,269,135	2,552,965
Federal programs	10,000	10,000	14,258	4,258
TOTAL REVENUES	15,299,548	15,551,524	18,664,450	3,112,926
EXPENDITURES				
Current:				
Instruction	11,098,422	11,100,328	11,150,264	(49,936)
Support services :				
Student.....	461,710	475,810	563,431	(87,621)
Instructional staff.....	741,535	760,309	811,850	(51,541)
District administration.....	634,021	650,271	353,401	296,870
School administration.....	981,268	982,923	1,190,333	(207,410)
Business.....	276,041	265,314	260,552	4,762
Plant operations and maintenance	2,125,951	2,122,533	1,972,754	149,779
Student transportation.....	1,378,042	1,563,542	1,462,129	101,413
Other	10,000	10,000	7,169	2,831
Facilities acquisition and construction	3,555,000	3,556,000	17,878	3,538,122
Debt service	114,178	114,178	0	114,178
Capital outlay.....	2,750,000	2,750,000	0	2,750,000
TOTAL EXPENDITURES	24,126,168	24,351,208	17,789,761	6,561,447

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(8,826,620)</u>	<u>(8,799,684)</u>	<u>874,689</u>	<u>9,674,373</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers.....	<u>(154,494)</u>	<u>(445,177)</u>	<u>(359,390)</u>	<u>85,787</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(154,494)</u>	<u>(445,177)</u>	<u>(359,390)</u>	<u>85,787</u>
NET CHANGE IN FUND BALANCES	<u>(8,981,114)</u>	<u>(9,244,861)</u>	<u>515,299</u>	<u>9,760,160</u>
FUND BALANCES – BEGINNING OF YEAR	<u>8,981,114</u>	<u>9,244,861</u>	<u>9,252,091</u>	<u>7,230</u>
FUND BALANCES – END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,767,390</u>	<u>\$ 9,767,390</u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:	
Actual amounts (budgetary basis).....	\$ 16,118,724
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	<u>2,545,726</u>
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	<u>\$ 18,664,450</u>
Outflows/expenditures:	
Actual amounts (budgetary basis).....	\$ 15,244,035
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	<u>2,545,726</u>
Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	<u>\$ 17,789,761</u>

LOGAN COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL REVENUE FUND
For the Year Ended June 30, 2004

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 13,430	\$ 13,955	\$ 14,370	\$ 415
State programs	1,303,299	1,464,198	1,770,895	306,697
Federal programs	1,919,255	2,315,254	2,084,967	(230,287)
TOTAL REVENUES	3,235,984	3,793,407	3,870,232	76,825
EXPENDITURES				
Current:				
Instruction	2,468,118	2,904,879	3,139,618	(234,739)
Support services:				
Student.....	15,026	20,293	56,997	(36,704)
Instructional staff	249,542	379,946	380,157	(211)
School administration	6,150	6,178	6,178	0
Plant operations and maintenance	43,642	47,066	45,352	1,714
Student transportation	301,035	285,573	49,833	235,740
Other.....	231,816	225,917	240,061	(14,144)
TOTAL EXPENDITURES	3,315,329	3,869,852	3,918,196	(48,344)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(79,345)	(76,445)	(47,964)	28,481

OTHER FINANCING SOURCES (USES)

Operating transfers	36,993	34,093	30,100	(3,993)
TOTAL OTHER FINANCING SOURCES (USES)	<u>36,993</u>	<u>34,093</u>	<u>30,100</u>	<u>(3,993)</u>
NET CHANGE IN FUND BALANCES	(42,352)	(42,352)	(17,864)	24,488
FUND BALANCES – BEGINNING OF YEAR	<u>42,352</u>	<u>42,352</u>	<u>42,352</u>	<u>0</u>
FUND BALANCES – END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 24,488</u></u>	<u><u>\$ 24,488</u></u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

Actual amounts (budgetary basis).....	\$ 3,465,068
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	<u>405,164</u>

**Total Revenues as Reported on Statement of Revenues, Expenditures and
Changes in Fund Balances — Governmental Funds** \$ 3,870,232

Outflows/expenditures:

Actual amounts (budgetary basis).....	\$ 3,513,032
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	<u>405,164</u>

**Total Expenditures as Reported on the Statement of Revenues, Expenditures and
Changes in Fund Balances — Governmental Funds** \$ 3,918,196

Supplemental Information

LOGAN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

	DEBT SERVICE FUND	SEEK FUND	FSPK FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS				
Cash.....	\$ 29,281	\$ 68,923	\$ 165,848	\$ 264,052
TOTAL ASSETS	\$ 29,281	\$ 68,923	\$ 165,848	\$ 264,052
LIABILITIES AND FUND BALANCES				
LIABILITIES	\$ 9,391	\$ 0	\$ 0	\$ 9,391
TOTAL LIABILITIES	9,391	0	0	9,391
FUND BALANCES				
Unreserved.....	19,890	68,923	165,848	254,661
TOTAL FUND BALANCES	19,890	68,923	165,848	254,661
TOTAL LIABILITIES AND FUND BALANCES	\$ 29,281	\$ 68,923	\$ 165,848	\$ 264,052

LOGAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	DEBT SERVICE FUND	SEEK FUND	FSPK FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES				
From local sources:				
Taxes:				
Property	\$ 0	\$ 0	\$ 402,496	\$ 402,496
Earnings on investments	161	849	12,184	13,194
Intergovernmental — state.....	998,659	306,120	431,673	1,736,452
TOTAL REVENUES	<u>998,820</u>	<u>306,969</u>	<u>846,353</u>	<u>2,152,142</u>
EXPENDITURES				
Current:				
Facilities acquisition and construction.....	0	600	1,500	2,100
Debt service:				
Principal	1,380,000	0	0	1,380,000
Interest.....	636,281	0	0	636,281
TOTAL EXPENDITURES	<u>2,016,281</u>	<u>600</u>	<u>1,500</u>	<u>2,018,381</u>
EXCESS (DEFICIENCY) OF REVENUES OVER				
EXPENDITURES	<u>(1,017,461)</u>	<u>306,369</u>	<u>844,853</u>	<u>133,761</u>

OTHER FINANCING SOURCES (USES)

Operating transfers	1,017,596	(392,634)	(1,286,803)	(661,841)
TOTAL OTHER FINANCING SOURCES (USES)	1,017,596	(392,634)	(1,286,803)	(661,841)
NET CHANGE IN FUND BALANCES	135	(86,265)	(441,950)	(528,080)
FUND BALANCES, BEGINNING OF YEAR	19,755	155,188	607,798	782,741
FUND BALANCES, END OF YEAR	\$ 19,890	\$ 68,923	\$ 165,848	\$ 254,661

LOGAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF ASSETS AND LIABILITIES
ALL SCHOOL ACTIVITY FUNDS
ALL AGENCY FUNDS
June 30, 2004

SCHOOL	CASH JUNE 30, 2004	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2004
Logan County High School	\$ 125,627	\$ 3,734	\$ 16,885	\$ 112,476
Adairville Elementary	19,365	864	89	20,140
Auburn Elementary.....	50,032	0	751	49,281
Chandlers Elementary	26,201	0	0	26,201
Lewisburg Elementary	14,285	815	223	14,877
Olmstead Elementary.....	30,507	0	0	30,507
	<u>\$ 266,017</u>	<u>\$ 5,413</u>	<u>\$ 17,948</u>	<u>\$ 253,482</u>

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
LOGAN COUNTY HIGH SCHOOL
June 30, 2004

	CASH JUNE 30, 2004	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2004
Art	\$ 130	\$ 0	\$ 0	\$ 130
Art Club	240	0	0	240
Athletics	553	990	784	759
Baseball	7,703	540	0	8,243
Beta Club	1,300	0	308	992
Business and Office	565	0	0	565
Book	1,427	0	0	1,427
Bookstore	771	300	0	1,071
Boys Basketball	5,531	350	2,816	3,065
Girls Basketball	2,513	0	0	2,513
Cheerleading	32	0	0	32
Chemistry Club	252	0	0	252
Computer/Wells	363	0	0	363
Cross Country	866	0	0	866
DECA	71	0	0	71
Drafting/Williams	20	0	0	20
Drama/Speech	337	0	137	200
English/Harper	243	0	0	243
English/Ferguson	750	0	0	750
English/Mohon	85	0	0	85
FBLA Club	923	0	78	845
FCA Club	676	0	0	676
FEA Club	73	0	0	73
FFA Club	3,719	917	1,451	3,185
FCCLA Club	329	0	292	37
Football	18	0	0	18
Friends of Library	135	0	0	135
General	12,090	0	7,119	4,971
General #1/Coke Lance	672	105	0	777
General #2/Coke Lance	13,682	111	649	13,144
Golf	324	0	0	324
Greenhouse	17,153	0	231	16,922
High Expectations	40	0	0	40
Home Ec B	460	0	0	460

	CASH JUNE 30, 2004	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2004
Home Ec C.....	1,002	0	913	89
Home Ec D.....	1,355	0	607	748
Ind. Arts.....	618	0	0	618
Interact Club.....	20	0	0	20
JROTC.....	199	0	0	199
JROTC Club.....	1,196	0	182	1,014
KTSA Club	147	0	0	147
LCYSC.....	427	0	0	427
Library.....	459	0	0	459
Lost Book.....	262	11	0	273
Math	224	0	0	224
Pep Club	542	0	0	542
Pride.....	723	0	0	723
Project Graduation	4,255	0	782	3,473
SAP/Botula.....	50	0	0	50
Science Club.....	8	0	0	8
Science/Myers.....	1	0	0	1
Softball	4,648	410	505	4,553
Spanish Club.....	1,305	0	0	1,305
Spanish/Myers.....	4	0	0	4
Student Council.....	1,668	0	0	1,668
Swim Team	467	0	0	467
Tennis	212	0	0	212
Track.....	180	0	0	180
Vo. Ag.....	2,232	0	31	2,201
Volleyball.....	2,381	0	0	2,381
Yearbook.....	26,996	0	0	26,996
TOTAL	\$ 125,627	\$ 3,734	\$ 16,885	\$ 112,476

LOGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	57604 05	\$ 197,605
National School Lunch Program	10.555	57504 02	506,926
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.550		88,430
TOTAL U.S. DEPARTMENT OF AGRICULTURE			792,961
U.S. DEPARTMENT OF EDUCATION			
Foreign Language Incentive	84.294		1,663
Carol M. White Phys. Ed. Program	84.215F		250,552
Passed-Through State Department of Education:			
Title I — 2003	84.010	35103 01	91,789
Title I — 2004	84.010	35104 01	505,610
Migrant Education Basic State Grant — 2003	84.011	35203 02	141
Migrant Education Basic State Grant — 2004	84.011	35204 02	45,242
Title V — Innovative Program Strategies — 2003	84.298	53303 02	154
Title V — Innovative Program Strategies — 2004	84.298	53304 02	13,428
IDEA — Part B Special Education — 2004	84.027	58104 02	623,775
IDEA — Part B Preschool — 2004	84.173	58704 02	103,039
Teacher Quality — 2003	84.281	71003 02	1,011
Teacher Quality — 2004	84.281	71004 02	184,391
Title IV — Safe & Drug Free Schools — 2003	84.186	59003 02	16,514
Title IV — Safe & Drug Free Schools — 2004	84.186	59004 02	3,710
Federal Ed. Tech — 2003	84.318X	73603 02	6,084
Federal Ed. Tech — 2004	84.318X	73604 02	16,352
Vocational Education — Basic — 2004	84.048	46204 32	28,385
Reading First	84.357A	52203 01	119,176
Workforce Incentive Grant	17.255		(14)
Passed-Through State Workforce Cabinet:			
Adult Education — Basic — 2004	84.002		24,401
Adult Education — Professional Staff Development — 2004	84.002		2,974
TOTAL U.S. DEPARTMENT OF EDUCATION			2,038,377

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF DEFENSE			
ROTC — 2003.....	12.000		281
ROTC — 2004.....	12.000		<u>46,309</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>46,590</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,877,928</u></u>

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Logan County School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

LOGAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2004

None



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of **Logan County School District** as of and for the year ended June 30, 2004, which collectively comprise **Logan County School District's** basic financial statements and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

! Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material

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weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated October 15, 2004.

! Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract—State Audit Requirements*.

This report is intended solely for the information and use of the members of the **Logan County Board of Education**, Kentucky State Committee for School Districts, management of the **Logan County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
October 15, 2004



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

! Compliance

We have audited the compliance of **Logan County School District** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and

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Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

! Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the **Logan County Board of Education**, Kentucky State Committee for School Districts, management of the **Logan County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
October 15, 2004

LOGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? G Yes ☒ No

Reportable condition(s) identified that
are not considered to be material
weakness(es)? G Yes ☒ None reported

Noncompliance material to financial
statements noted? G Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? G Yes ☒ No

Reportable condition(s) identified that
are not considered to be material
weakness(es)? G Yes ☒ None reported

Type of auditors' report issued on compliance
for major programs: unqualified

Any audit findings disclosed that are required
to be reported in accordance with section
510(a) of Circular A-133? G Yes ☒ No

LOGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2004

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555	Child Nutrition Cluster
84.027	IDEA B — Basic
84.173	IDEA B — Preschool
84.010	Title I

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? G Yes ☒ No

SECTION II — FINANCIAL STATEMENT FINDINGS

None

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None



Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

In planning and performing our audit of the financial statements of **Logan County School District** (the "District") for the year ended June 30, 2004, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated October 15, 2004 contains our report on the District's internal control. This letter does not affect our report dated October 15, 2004 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Holland CPAs, PSC

Russellville, Kentucky
October 15, 2004

LOGAN COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2004

! Activity Funds — Individual Schools

► *Adairville Elementary School*

- During our test of controls over the disbursement cycle, we noted that not all voided checks were voided in accordance with policy procedures. According to the requirements of the activity fund, voided checks are to have the word “VOID” across the face of the check and the signature portion of the check torn off. We recommend that the appropriate procedures be followed for voided checks as the requirements of the activity funds state.
- During our test of controls over the disbursement cycle, we noted that not all invoices were cancelled properly as “paid”. According to the requirements, the check number and date paid should be noted on the invoice. We recommend that closer measures be taken to ensure that all invoices are cancelled as paid according to the requirements of the activity funds.
- During our test of controls over the disbursement cycle, we noted not all purchases were documented with a completed purchase order. We recommend that all disbursements be documented with a purchase order to comply with the requirements of the activity funds.
- During our test of controls over the disbursement cycle, we noted not all purchases were documented with a vendor invoice and/or a standard invoice. All vendor invoices and/or standard invoices must have the approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued. We recommend that all invoices obtain the essential documentation to comply with the requirements of the activity funds.

► *Auburn Elementary School*

- During our test of controls over the receipt cycle, we noted that the receipts were not being used in sequential order based on the dates of receipt. We recommend that the receipts be used in numeric sequence to ensure a proper accounting of all receipts of cash.

LOGAN COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2004

- During our test of controls over the disbursement cycle, we noted that not all invoices were cancelled properly as “paid”. According to the requirements, the check number and date paid should be noted on the invoice. We recommend that closer measures be taken to ensure that all invoices are cancelled as paid according to the requirements of the activity funds.
- During our search for unrecorded liabilities, we noted concerns in the procedures regarding the school’s credit card at the Minit Mart. Upon discussion with the principal, it was addressed that all faculty had access to the credit card. We recommend that access to the credit card be limited to a few authorized personnel.

► *Olmstead Elementary School*

- During our test of controls over the receipt cycle, we noted that deposits were not being made timely. We recommend that deposits be made daily and that the bank receipt be attached to the deposit slip to verify timely deposits and to lessen the potential for misappropriation of assets.
- During our test of controls over the receipt cycle, we noted that not all deposit slips or receipts were signed by two different individuals. To ensure proper segregation of duties, the deposit or receipt should be counted and signed by two individuals.
- During our test of controls over the disbursement cycle, we noted that not all voided checks followed policy procedures. According to the requirement of the activity fund, voided checks are to have the word “VOID” across the face of the check and the signature portion of the check torn off. We recommend that the appropriate procedures be followed for voided checks.
- During our test of controls over the disbursement cycle, we noted that not all checks were signed by two individuals. We recommend dual signatures for all disbursements issued to comply with the requirements of the activity fund.

LOGAN COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2004

- During our test of controls over the disbursement cycle, we noted that, due to the growth in technology, banks have changed their processing of cancelled checks and that with these changes the entity no longer receives the cancelled checks but rather an image of the front side of the check. We recommend that the activity fund request and obtain an image of both the front and the back side of the checks in order to detect any fraudulent activity that may occur that would be detected during the review of the monthly activity recorded on the bank statement.
- During our test of controls over the disbursement cycle, we noted that not all invoices were cancelled properly as paid. According to the requirements, the check number and date paid should be noted on the invoice. We recommend that closer measures be taken to ensure that all invoices are cancelled as paid according to the requirements of the activity funds.

► *Logan County High School*

- During our test of controls over the disbursement cycle, we noted that not all disbursements included documentation of receipt. We recommend that all items received have some documentation of receipt to ensure all items requested were received.
- During our test of controls over the disbursement cycle, we noted that not all purchase orders were signed by the person requesting the merchandise. We recommend the individual requesting merchandise always sign the purchase order to comply with the requirements of the activity funds.
- During our test of controls over the disbursement cycle, we noted that not all voided checks followed policy procedures. According to the requirement of the activity fund, voided checks are to have the word "VOID" across the face of the check and the signature portion of the check torn off. We recommend that the appropriate procedures be followed for voided checks.

LOGAN COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2004

- During our test of controls over the disbursement cycle, we noted that not all invoices were cancelled properly as “paid”. According to the requirements, the check number and date paid should be noted on the invoice. We recommend that closer measures be taken to ensure that all invoices are cancelled as paid according to the requirements of the activity funds.
- During our test of controls over the disbursement cycle, we noted that not all purchases were documented with a vendor invoice and/or standard invoice. We recommend that all purchases be completed with an original vendor invoice. If a vendor invoice is not available, the disbursement shall be supported by a standard invoice, which must be signed by the payee, according to the requirements of the activity funds.
- During our test of controls over the receipt cycle, we noted that not all of the deposit slips or receipts were signed by two different individuals. To ensure proper segregation of duties, the deposit or receipt should be counted and signed by two individuals.



Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

We have audited the financial statements of ***Logan County School District*** (the "District") for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. Professional standards require that we provide you with the following information related to our audit.

! Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, OMB Circular A-133 and Procedures for Auditing Local School Districts' Fiscal Records

As stated in our engagement letter dated July 1, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

! Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in *Note 1* to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you or transactions for which there is a lack of authoritative guidance or consensus.

! Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

● **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Our proposed audit adjustments, that were in our judgment either individually or in the aggregate, which had a significant effect on the District's financial reporting process were recorded by the District. These entries related primarily to recording debt issuance cost. We would be glad to discuss the nature of these adjustments with you. In addition, the attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

! **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

! **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

! Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

! Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management of **Logan County School District** and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

LOGAN COUNTY SCHOOL
AUDIT DIFFERENCE EVALUATION
June 30, 2004

		Effect on Financial Statements ³ / ₄ Over (Under) Statement					
Description	Amount of Difference	Total Assets	Total Liability	Fund Equity	Revenues	Expenses	Net Change
To reclassify bond discount recorded by client as construction in progress	38,770	38,770	38,770	0	0	0	0
To reclassify bond issuance cost recorded as CIP by the client	4,927	0	0	0	0	0	0
Net Effect		38,770	38,770	0	0	0	0
Financial Statement Totals Government District-Wide		41,818,221	17,834,515	23,983,706	26,244,215	24,515,405	1,728,810
Net Effect as a % of Totals		0.09%	0.22%	0.00%	0.00%	0.00%	0.00%

LOGAN COUNTY BOARD OF EDUCATION

P. O. BOX 417

2222 BOWLING GREEN ROAD

RUSSELLVILLE, KENTUCKY 42276

Marshall H. Kemp, Superintendent

Phone (270) 726-2436 • FAX (270) 726-8892

October 15, 2004

Kentucky Department of Education
Division of Finance
Capital Plaza Tower, 15th Floor
500 Mero Street
Frankfort, KY 40601

RE: Logan County School District
Letter of Comments and Recommendations
Audit of FYE June 30, 2004

Ladies / Gentlemen:

As noted in the audit report, there were no material weaknesses, reportable conditions, instances of noncompliance, or questioned costs discovered in the audit of the financial statements of the Logan County School District for the fiscal year ended June 30, 2004. The auditor's *Letter of Comments and Recommendations* describes opportunities for strengthening internal controls and operating efficiency.

Following are the procedures to institute the recommendations and corrective actions to be taken or already established:

Adairville Elementary School

The school has been instructed to imprint "VOID" across the face of all void checks and to tear off the signature portion. The school is to properly cancel all invoices as paid and to document all appropriate purchases with purchase orders in accordance with District policy. Furthermore, the school has been instructed to obtain essential documentation for disbursements, including standard invoices with all appropriate signatures.

Auburn Elementary School

The school has been instructed to issue receipts immediately upon receipt of funds and always in numerical order. All paid invoices are to be properly cancelled upon payment. The schools charge card for local supplies has been put under appropriate controls.

Olmstead Elementary School

Procedures have been put into place to insure timely deposits and to have deposits counted and signed by two individuals. The school has been instructed to properly deface voided checks and properly cancel paid invoices. Procedures have been put into place to insure the required two signatures are in place on checks, and bank statements showing the front and back of checks have been ordered.

Logan County High School

The school has been instructed to have all proper documentation, including appropriate signatures on purchase orders, vendor invoices, properly signed standard invoices including vendor signatures where appropriate, and proper documentation of the receipt of merchandise before processing any bills for payment. Procedures have been put into place to insure appropriate defacing of voided checks and cancellation of paid invoices. Also, the school has been instructed to document the counting of deposits by two individuals.

If there are any questions on the comments or corrective actions, or if any other information is needed, please feel free to call upon me.

Sincerely,

s/ Danny L. Harris

Danny L. Harris, CPA
Finance Officer

CC: Holland, CPAs